

# **EXHIBIT A**

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## Hard Sell

By **[Roger Gros](#)** *Mon, Aug 30, 2010*



How the expansion of the Hard Rock International franchise is bringing more revenue, respect to the Seminole tribe



It didn't take a math whiz to figure out that the Seminole Hard Rock Hotel and Casino properties in Hollywood and Tampa, Florida, were an important piece in the brand that had been developed by the Rank Group of the United Kingdom. Revenue from the licensing deal was one of the key elements to the financial health of the company. Unfortunately, the rest of the company was struggling. Even a Hard Rock Casino in London had failed to produce significant revenues despite a huge

investment. And the Hard Rock Cafés, long a cornerstone of the company, also were struggling.

So when Jim Allen, president of Seminole Gaming with oversight over the two Florida Hard Rock properties as well as five other Seminole casinos, came to Rank with the idea that the tribe would buy out their licensing agreement and the entire company along with it, the only thing left to negotiate was the price.

“When we looked at the percentage of profits that the Seminole Hard Rocks were to the entire company, and knowing that the brand needed some work, we looked at it as a real opportunity to take the brand to the next level,” says Allen.

So for nearly \$1 billion, the Seminoles agreed to purchase Hard Rock International, which includes all the Hard Rock Cafés, any gaming operation east of the Mississippi (west of the Mississippi, Hard Rock casinos are owned by Morgans Hotel group and several investment banks) and all international expansion opportunities.

### **Brand New**

Allen says the change in the brand actually began when the Seminoles were merely licensees.

“We focused on the hotels and the casinos,” he said. “Previously, the focus was more on the cafés.

“We saw the energy levels that can be developed between casino customers, who can be as young as 21 or someone who is 70 who likes Elvis, the Beatles and Frank Sinatra. So the demographics of our customer could be elevated by using a brand like Hard Rock.”

He says Rank’s way of running the company was hurting the brand as well.

“They had really lost their way on the quality aspect when it comes to food,” he says. “So we went back to basics: The burgers were all made fresh. Soups, salads and whatever were all made on the premises.

“I always use the example that Rank had actually allowed its food to be used on Northwest and US Airways as airline food. Well, there’s no worse perception of food in the world than airline food.

“So the brand was not loved and cared for as we would have done and we have done over the past four years.”

The Seminole experience wasn’t the first encounter Allen has had with Hard Rock. Before he joined the Seminoles, he worked for Donald Trump during a period when the Atlantic City gaming mogul was considering branding one of his casinos as a Hard Rock. Although it never came to pass, Allen recalled his impressions.

“I always believed the brand was tremendously dynamic in the casino sector,” he says.

### **Business Model**

With a variety of operations around the globe, Hard Rock International’s business model can only be called “flexible.” With full ownership, leasing and managing, and simply licensing, Hard Rock International can mold itself to any operational situation, according to Allen.

“We can adapt to any one of those situations,” he says. “But our biggest advantage is that we’re in 54 countries. That isolates us from any particular downturn in the economy in any one country. Our stores in Europe are doing well. The Northeastern U.S. stores are experiencing weakness, but the Orlando hotel is doing great with the opening of the Harry Potter attraction there.”

He says while the cafés are doing well, his attention is elsewhere.

“Our primary focus is growing the casino and hotel brand,” he explains. “That’s our first goal. The second goal is to grow the franchise. The company owns all the stores, but I can’t see much more growth in the U.S. than between five and 10 more outlets. But when you look internationally on a franchise basis, there’s probably at least another 50 cities that could successfully host a Hard Rock Café. As far as hotels are concerned, there’s probably about 25 to 50 locations where a Hard

Rock Hotel would be very successful.”

Allen says how they develop these products is dependent upon the location.

“Our best business model is having a developer who wants to pay us for the licensing of the brand and our management,” he says. “That’s the model we like the best, obviously, because the investment from our side is minimized. Our return on investment in Florida is so much greater than anyplace else in the world, so we try to put our cash to best use here in the state of Florida.”

### **Hard Rock I and II**

One of the challenges facing Allen is the two separate owners of the Hard Rock brand. Because the Morgans Hotel Group and several other investors own the Hard Rock Las Vegas, and have control of the gaming and hospitality using the brand west of the Mississippi, Allen says it can be confusing for investors and for customers.

“We’ve had numerous meetings with Hard Rock Las Vegas to assure that protections and standards of the brand are maintained,” he says. “Some of the new people running Hard Rock Las Vegas are now getting up to speed on how this relationship works. It’s in the best interest of both parties to make sure the trademark is protected and we each continue to enhance the brand.

“They cannot do a transaction in their territory without submitting it to us for approval. Now, we cannot unreasonably withhold the approval, but they can’t put it on something that would diminish the brand to any extent. But the projects they have been involved with so far have really been first-class.”

The combination of the two companies obviously would make sense, but Allen says there are some fundamental differences that could make that difficult.

“If you put dollars and cents aside,” he explains, “it would make sense. But unfortunately for Hard Rock Las Vegas, they have about \$1.7 billion tied up in that venue. The economics don’t make sense, so they’ve been trying to restructure their debt.”

### **Hospitality Hopes**

While Allen favors hotels with casinos, there are many examples of Hard Rock hotels performing well without gaming. The company has stand-alone hotels in Orlando, Florida; Chicago; San Diego; Pattaya, Thailand; and Penang, Malaysia. Several other developments are on the drawing board in Abu Dhabi, Panama and Dubai.

“In every market we’re in, we are above revPAR index for the city, and in some cases, over 30 percent higher,” he says. “In Chicago and San Diego and elsewhere, we take the experience of being in a hotel and liven it up with memorabilia, entertainment and special touches you would not find in a normal hotel.”

In non-casino locations, Hard Rock maintains its brand awareness, says Allen.

“In places like Chicago and San Diego, we cater to a business clientele,” he says. “In Orlando, it’s an entirely different focus. We ran 99 percent occupancy last month when Harry Potter opened up, which basically means that every room was booked for every night of the month. The brand really is chameleon-like. It has the ability to do different things in different markets with different ages and demographics.”

And as much as Allen is focusing on hotel and casino development, the Hard Rock Cafés are still an important part of the company.

“They are one of our major building blocks,” he says. “We’re excited to be opening a new Hard Rock Café in our Tampa casino. And that particular café will have some additional elements that are new to Hard Rock. But with the premise of people going to an international city who want some American fare or to hear some familiar music, Hard Rock has been that solution. Next year will be our 40th anniversary. We’ve outlasted some similar chains like Planet Hollywood, Motown Café, All Star Café and just recently the ESPN Zone restaurants. We’re the only one that’s growing, and this will be our best year ever. We’re breaking the trend, and we still think the cafés are a very key element of the long-term growth of this company.”

### **Music For All**

Allen says that music has been re-emphasized since the purchase by the Seminoles.

“And it’s not just rock n’ roll,” he says. “We have all aspects of gaming. We’ve hosted the Latin Billboard awards and brought music back to the brand.”

While Allen doesn’t necessarily believe that artists prefer playing at Hard Rock properties, he does think they see a gig at the Hard Rock in a different light than any other venue.

“There is an awareness in the music community that if you’re involved with Hard Rock, they’re doing more than just trying to sell a ticket or sell a T-shirt,” he says. “We’re also the custodian of music history and memorabilia. We’re up to more than 73,000 pieces now. So, if we donate X number of dollars to an artist’s favorite charity, or if we host an event for that cause, it becomes a triangular event that seems to work very well.”

The motto of Hard Rock—“Love All, Serve All”—has become emphasized as well under the Seminole ownership.

“The philanthropic participation of the brand has not just doubled, not just tripled, but gone up tenfold and more since we bought the company,” says Allen. “And it’s not just the company. It’s individuals in the company, and even the artists who play at our facilities. And that has really become contagious.”

### **International Outlook**

With hotels connected to casinos in Macau (at Melco Crown’s City of Dreams) and Singapore (at Genting’s Resorts World Sentosa), a focus of the company’s expansion is clearly international. Allen explains why this is important:

“Any company today that doesn’t look at their business globally may not be seeing its full potential,” he says. “Since the brand has demonstrated that music is worldwide, culturally it makes sense for us. And we see some of our international locations being more successful than some of our domestic ones. It depends upon the city where we’re located.”

One of Hard Rock’s newest projects is a Hard Rock Casino Resort in Punta Cana, Dominican Republic. Slated to open this fall, Allen has high hopes for the development.

“It’s a relationship we have with a very successful Mexican hotel company, Palace Hotels,” he says. “It’s a 1,700-room resort right on the beach in Punta Cana with one of the largest casinos in the Caribbean. The island has been a tremendous gateway for U.S., Canadian and international travelers.”

### **Atlantic City Bound**

At a time when many investors are fleeing Atlantic City, Allen is making his way back to his roots. Along with a proposal by state Senator James Whelan, a former Atlantic City mayor, to permit 200-room hotels with a smaller casino, Hard Rock is ready to commit to the Boardwalk, should the bill go forward into law.

“Our partners are Ochs-Ziff, a New York capital management firm,” he explains. “We would build a hotel on the Boardwalk near the Atlantic City Hilton with between 200 and 300 rooms.”

Allen isn’t concerned by the recent downturn in the Atlantic City casino industry.

“We think that market still has a lot of life to it,” he says. “We’ve entered into agreements with them to continue to explore that potential opportunity.”

Allen says he’s not concerned about a smaller casino footprint nor the higher tax rate (approximately 9 percent for existing properties vs. 14 percent for the smaller casinos).

“If you understand the philosophy behind Senator Whelan’s bill,” he explains, “it’s not that you build only 200 rooms and that’s it. You would eventually get to 500 rooms and hopefully many more than 500 rooms.”

“If you can reduce capital commitments and get into the market with less rooms, that gets cash flow going and expansion can be considered at that point.”

Another market Allen likes is Massachusetts. Although at press time, no bill had been signed by the governor, Allen remains optimistic.

“We’ve been looking there for almost two years,” he says. “We’ve identified about 14 different sites, which we narrowed down to three. We think we can be a player there because of the success we’ve had all over the world. We don’t have a definitive announcement to make, but we’re confident that if a bill gets approved, we’ll be involved.”

### **Seminole Wind**

The purchase of Hard Rock International by the Seminole tribe four years ago had repercussions around the world, both in gaming and hospitality. Allen says the motivation for the purchase was twofold.

“The tribe looked at it from a sense of pride,” he says. “They recognized that it would be a monumental step for them. Certainly, we had to justify it from an economic standpoint, but because we were a licensee we saw the success of the brand, and more importantly, the potential of the brand.”

Allen says the relationship between the tribe and company is still being worked out.

“I think the average tribal member is very proud that they own Hard Rock,” he says. “But the complexities of the company and the renewed responsibilities that go with that are still a learning process that we’re working through at this point.

“We’re expecting to continue to grow the business and to continue to produce more cash for the tribe. Best of all, it diversifies their assets so they’re not totally dependent upon the Florida properties.”

Allen believes that the tribe is beginning to take more control over its fortunes.

“When I first came here, we started an intern program,” he says. “We take tribal members and not just have them work in the business, but go through a curriculum that includes all the departments. The goal is to give them some educational as well as practical experience. The hope is that some day a tribal member will be sitting in my position and have a true understanding of the business in its entirety.”

### **Hard Rock Lives**

As Allen circumnavigates the globe, aided by Hard Rock President and CEO Hamish Dodds, in search of expansion opportunities and financing for development, he says his pitch is simple.

“We just stress the success of the brand,” he says. “That’s a nice introduction. When you ask what brand has been around for 40 years and just had its best year ever, there are not really any alternatives. That separates us very quickly from a lot of other companies.”

But Allen says it’s the video that makes the prospective clients smile.

“When we can trot out stars like Shakira, Bruce Springsteen, Yoko Ono, Bono... literally some of the legends of the music industry, saying how much they love and support Hard Rock and how we are such an important factor in what they do, that immediately puts you in a different class than most of our competitors,” says Allen. “When you have these kinds of celebrities who work with Hard Rock because the people who manage and own it really care about people, it’s very rewarding and it’s very appealing to people who might want to work with us.”

By Roger Gros



Roger Gros is publisher of *Casino Connection International, LLC*. *Global Gaming Business* magazine, *Casino Connection Atlantic City* and *Casino Connection Nevada* are among the monthly publications Gros publishes. Prior to joining *CCI*, Gros was president of *Inlet Communications*, an independent consulting firm. He was vice president of *Casino Journal Publishing Group* from 1984-2000, and held virtually every editorial title during his tenure. Gros was editor of *Casino Journal*, the *National Gaming Summary* and the *Atlantic City Insider*, and was the founding editor of *Casino Player* magazine. He was a co-founder of the American Gaming Summit and the Southern Gaming Summit conferences and trade shows. He is the author of the best-selling book, *How to Win at Casino Gambling* (Carlton Books, 1995), now in its third edition. Gros was named "Businessman of the Year" for 1998 by the Greater Atlantic City Chamber of Commerce.

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